(b)(1)
(b)(3)

4756
(3)

~~Secret~~

Intelligence Report

21 January 1998

Office of Asian Pacific and Latin American Analysis

Exploring the Implications of Alternative North Korean Endgames: Results From a Discussion Panel on Continuing Coexistence Between North and South Korea

An Introductory Note

The Group recently convened a panel of Northeast Asian specialists to further examine some issues that arose from the March 1997 Intelligence Community crisis simulation on alternative Korean endgames. In that simulation, regional dynamics were examined in response to a limited North Korean invasion of the South, a coup attempt and resulting civil war in the North, and a peaceful unification under Seoul's leadership.

- The specialists panel included former US policymakers, academic experts, analysts from leading foreign policy institutes and the Congressional Research Service, and both active and retired military and intelligence officers (see appendix A).

This report summarizes the panel's deliberations on an alternative outcome that was alluded to but not explored in the March crisis simulation. Specifically, the simulation revealed that the optimum Korean endgame from South Korea's perspective would be a gradual process of reconciliation leading to eventual reunification on South Korean terms without unacceptable economic consequences. Consequently, the panel was asked to consider both the potential for reconciliation and the implications of a potentially prolonged period of competitive coexistence between the two Korean states.

APPROVED FOR RELEASE
DATE: MAR 2004

Neither the panel's deliberations nor this report are intended to predict the future course of events on the Korean Peninsula. Rather, the panel's discussions should be viewed as an interactive effort by the participants to identify key factors that need to be considered in assessing the prospects for or against the possible continuation of a

CIA/OTI IR 98-009
CIA/ALA IR 98-40101

~~Secret~~

variant of the status quo in inter-Korean relations. Nevertheless, the panel's perspectives, along with the March crisis simulation, serve as a tool to enhance our understanding of the political, military, and economic dynamics at work on the Korean Peninsula as well as to gain insights into the policy decisions facing the two Koreas.

This report is prepared by analysts from the Office of Transnational Issues, and the Office of Asian Pacific and Latin American Analysis. Comments and queries are welcome and may be directed to

Exploring the Implications of Alternative North Korean Endgames: Results From a Discussion Panel on Continuing Coexistence Between North and South Korea

Summary

The fundamental variable in assessing the Korean endgame is the question of time. Will there be a gradual peaceful reintegration on the peninsula as preferred by South Korea and the other involved powers? Conversely, will North Korea be able to preserve itself as an independent state for a prolonged period, thereby deferring the complex issue of reunification? Or is the regime in the North more likely to collapse following a near-term failure of its attempts to muddle through?

On balance, the sense of the specialists panel was that given the multiple problems confronting Kim Chong-il's regime, there may be only a brief window of time to consider how to cope with the probable reality that the North will experience a "hard landing." The prospect of achieving either a "soft landing" or even a "no landing" scenario appears illusory without a regime change in the North.

The panelists agreed that a number of factors lend credence to the prospect that the near-term future on the Korean Peninsula may be characterized by a continuing, unstable coexistence between the North and the South.

- ***There appears to be no significant threats to Kim Chong-il's ability to stay in command, and the leadership shows no signs of losing its political will to stay the course.***

- ***Most important, North Korea continues to be able to leverage outside concerns about the potential negative consequences of regime collapse to obtain a minimalist package of survival support.***

- ***Even before its current economic crisis, South Korea preferred the perpetuation of separate regimes because of the high costs of accelerated reunification. The other regional powers find it difficult to contemplate an alternative to the status quo and appear to prefer to help the North muddle through.***

A continuing period of competitive coexistence also appears more plausible than achieving the reconciliation envisioned in the 1991-92 inter-Korean accord or North Korea's risking significant systemic reforms and opening to the outside.

- Problems militating against reconciliation include the North's claim to represent the sole legitimate power on the peninsula and its likely continuing foreign policy competition with the South.

- The policy changes that would be required to induce substantial external aid and investment are unlikely to be made because Kim views major economic reform as threatening his regime's viability.

While acknowledging a variety of factors that could prolong an independent North Korea, the overall sense of the panel was that the Kim regime cannot remain viable for the long term. ***Although panelists' views were split, the majority doubted the current, deteriorating status could persist beyond five years.*** The steady, seemingly irreversible economic degradation in the North cannot be stanched by minimalist sustainment aid; the current situation in North Korea appears beyond corrective actions that do not fundamentally threaten the regime's viability.

- ***Although the timing is uncertain, the prospect seems strong that the Kim regime's refusal to reverse course in favor of major reform could generate some catalyst that will lead to its collapse.***

The panel saw no viable alternative beyond continuing ongoing efforts at pursuing tension reduction but the participants' pessimism raises the legitimate possibility that a prolonged period of coexistence with the present regime in the North may not be sustainable.

- ***Consequently, the problem of refining and coordinating contingency plans for the collapse in the North would appear to pose a more urgent challenge to South Korea, the United States, and Japan.***

- In the panel's view, a major challenge to Washington will be reassuring Seoul that prudent planning for a worse case outcome does not imply a lessening of the US commitment to support any opportunity to resume inter-Korean dialogue.

The panel assessed that the United States and South Korea are entering a critical juncture on the peninsula that will be defined by a period of instability and uncertainty. The interaction between Seoul and Washington in dealing with a possible hard landing in the North will have a critical effect on US influence with a future, unified Korea. Indeed, in the panel's view, coping with the challenge on the Korean Peninsula is likely to be the defining issue in terms of the US ability to continue to shape the security environment in Northeast Asia.

Exploring the Implications of Alternative North Korean Endgames: Results From a Discussion Panel on Continuing Coexistence Between North and South Korea

Reconciliation Versus Competitive Coexistence: An Overview

Despite a broad consensus that political implosion stemming from irreversible economic degradation seems the most plausible endgame for North Korea, a panel of Northeast Asian specialists agreed that a case could be made that a near-term collapse of the regime is not inevitable. An ultimate reunification of the Korean Peninsula on South Korean terms possibly could be preceded by a period of muddling through, characterized by a continuing, unstable competitive coexistence between the two Korean states. Achieving a more stable, longer lasting confederal arrangement between the two Koreas, however, would appear unlikely without a leadership change in the North.

In the view of the panel of participants in an Integrated Regional Threat Group-sponsored discussions examining alternative endgames, a period of competitive coexistence could see:

- Continuation of modest economic reform in North Korea.
- Possible resumption of inter-Korean dialogue on noncore issues.
- Intermittent provocations by the North aimed at gaining increased external assistance and/or negotiating advantage.
- Demonstrations of tactical flexibility in the North's competition with the South in relations with the United States, China, and Japan.

Competition to maintain the upper hand in managing inter-Korean relations and garnering external support would not necessarily lead to an increased North Korean military threat to the South but also would unlikely lead to a genuine reconciliation.

The sense of the panel was that a continuing period of competitive coexistence is more plausible than a breakthrough in implementing the 1991-92 inter-Korean accord or North Korea's risking significant reforms to address its systemic weaknesses.[1] The

[1] The Agreement on Reconciliation, Nonaggression, and Exchanges and Cooperation Between the South and the North was concluded on 13 December 1991 and entered into force as of 19 February 1992. Similarly, the Joint Declaration of the Denuclearization of the Korean Peninsula entered into force as of 19 February 1992. However, efforts to implement the two agreements broke down in less than a year.

panel was unable to establish an agreed time frame for how long a state of competitive coexistence might continue. Opinion ranged from as few as 2 years to possibly as long as 10 years but most participants seemed uncomfortable with the notion that North Korea could muddle through for more than 5 years.

The North effectively has become a beggar state living on "a thin drip lifeline" of external assistance. Panelists were split over how many years a minimalist sustainment package would be practicable, given the massive inefficiencies that are strangling the economy (see appendix B). Some panelists commented that economically North Korea could do a little and benefit a lot in terms of reform and infrastructure modernization; however, no individual reform would be free of social and political risk. Other panelists noted that even with 10 years of moderate aid, the economy would not be sustainable without external assistance.

On balance, however, the majority of the panelists agreed that North Korea under Kim Chong-il would not be willing to effect the policy changes necessary to attract more substantial assistance and investment because of the threat the attendant opening of North Korean society would pose to the regime's control.[2] Most panel participants felt that reform measures, such as creating free trade zones and allowing small market interactions, have been too little too late and that the current situation in North Korea appears beyond corrective actions that do not fundamentally threaten the regime's legitimacy and viability.

Some participants commented that irrespective of the absence of broader policy changes under Kim Chong-il, there may be a way to negotiate with the North an expanding series of tension reduction steps—to supplement the requirements in the Agreed Framework—in return for South Korea and the involved powers providing enough aid to allow some improvement in the North Korean status quo; a staged, weapons specific road map could be devised, for example, requiring the North progressively to eliminate chemical and other weapons for aid.

Conversely, other participants argued that the price for substantial tension reduction more likely would be a multiyear, multibillion aid and investment package that South Korea, as the primary involved party, has neither the resources nor the political will to implement. Some panelists noted that without tension reduction or reform in the North, there is a problem of political sustainability in justifying a long-term continuation of aid sufficient to prop up a brutal North Korean regime but inadequate to ameliorate the suffering of the North's populace.

---

[2] One participant pointed out that we do not know the degree of resistance by Kim Chong-il to fundamental policy changes. In particular, we do not know what his reaction would be if faced with the choice of implementing basic changes or being eliminated as the leader. Therefore, the possibility should not be overlooked that Kim would accept change as have leaders in other countries who have faced challenges to their political survival.

Given theses considerations, the overall sense of the panel was that while a period of continuing competitive coexistence may be plausible, it would be a period of instability and uncertainty without the prospect that the North will be persuaded to make a substantive commitment to structural reform or to give up leverage by reducing its military threat.

Factors in North Korea's Near-Term Survival

Although the majority of the panel saw no prospect that the Kim Chong-il regime would initiate the systemic adjustments necessary to maintain the long-term viability of North Korea, all agreed that there are a number of factors that could perpetuate a continuing—though deteriorating—status quo. Domestically, there are no signs of instability that appear to directly threaten a deified Kim Chong-il's ability to stay in command.[3] Moreover, the regime derives its ideological legitimacy from its mission to unify Korea and not from its ability to perform economically.

Echoing arguments made in China and Japan, participants said that the argument can be made that despite overall economic deterioration, the North can weather its difficulties for some time at the near-subsistence standards to which the people are accustomed. Although the national economy is not self-sufficient, it was pointed out that the low levels of domestic consumption and the essentially localized system of self-sufficiency in manufactured goods consumed by North Koreans provides a buffer for the central regime and gives it some degree of flexibility in meeting its foreign exchange needs.

Some panelists also pointed out that while the North cannot become self-sufficient, it needs only about an additional $300 million a year in hard currency to meet its needs for food and other critical items and may be able to meet this need from a number of sources. P'yongyang earns some money, for example, from military sales, drug smuggling, counterfeiting, providing cheap labor to Russia, and selling air rights to foreign airlines. Most important, North Korea has been able to leverage outside concerns about the negative consequences of catastrophic collapse to obtain a thin lifeline of survival support. These varied sources may be enough to cover the most desperate shortfalls and allow the North to muddle through.

Another factor that may prolong regime survival is that the leadership shows no signs of losing its political will to stay the course. Several panelists pointed out that the disarray, confusion, and social and economic breakdown in the former Soviet Union and elsewhere has been viewed as proof of the wisdom of North Korea's version of socialism. However delusionary, Kim Chong-il appears to have concluded that the

[3] Some panelists note that the fact the regime relies on coercion rather than popular support is a sign of its potential fragility. Others, however, pointed to the survivability of a number of coercive, authoritarian Third World regimes.

North Korean system has been managed correctly (in terms of regime survival) and that collapse in the former Soviet Union stemmed from the absence of the firm guidance of a great leader and an erosion of ideology.

Other panelists pointed out that the North faces a catch 22 dilemma that reinforces the regime's will to continue to seek to survive by adopting policies for procrastination. North Korea under Kim Chong-il has no choice but to defend its system. To concede that North Korea's socialist experiment has failed would be a blow so devastating that it psychologically would be unbearable to admit such failure. South Korea's current financial turmoil is likely to reinforce Kim's determination to maintain the illusion that P'yongyang's system is infinitely superior to Seoul's system—particularly in terms of defending Korean sovereignty.[4]

The effort to sustain the illusion makes North Korea's isolation a crucial requirement for its near-term survival. If North Korea were to alter course by tackling its systemic problems and adopting policies designed to attract substantial outside investment and assistance, the regime would likely have to face implementation of the 1991-92 inter-Korean agreement, which in turn would likely pave the way for the North Korean regime's demise in the long run.

Externally, the panel noted that the South Koreans—while not forsaking the goal of eventual unification—prefer the perpetuation of separate regimes because of the high costs of reunification.[5] Even before the current economic crisis, it was unclear whether South Korea could manage the consequences of a North Korean collapse. Despite government contingency planning, South Koreans have been concerned by the prospect of massive movements of people as well as uncontrollable demands for economic aid and the legal, administrative, and political problems of absorbing a large and economically backward North.

According to a number of Korean scholars, South Korea's fear of losing control over the situation once the unification process starts is real. Some panelists pointed out that the persistence of regional animosities in the South has aroused some concern that South Korea may not be able to survive the vortex of national unification.

The panel also noted that China's apparent determination not to allow North Korea to simply collapse could be a crucial factor in prolonging the Kim regime. None of the panelists anticipated a substantial Chinese aid program but they presumed China will continue to be willing to provide enough resources to allow North Korea to maintain its existence as a separate but weak state. While allowing that the current financial

---

[4] Some participants pointed out that there apparently are officials in the North who recognize the need for major reform. But those officials, who understand the dynamics of South Korea, the United States, and the international environment, are not in positions to decide

[5] One panel member noted that there are over 20 different estimates of unification costs for over 10 years ranging from $400 billion to $1.2 trillion.

situation in both South Korea and Japan introduces significant uncertainty, some panelists argued that Japan could provide more aid in conjunction with reopening normalization talks with the North and that movement by Tokyo could overcome Seoul's reluctance for more, albeit limited, economic involvement with the North. Finally, the North is benefiting from its participation in the KEDO arrangement to supply light-water reactors and in programs with international agencies to provide humanitarian aid.

Can the Two Koreas Reconcile?

The panelists saw a number of problems militating against a genuine reconciliation between the two Koreas. First, the North Korean state's internal logic is based on its central claim to represent the sole legitimate power on the peninsula and its orientation toward reuniting the Korean people under an independent socialist state. This is an historic claim and, given that performance-based legitimacy cannot be obtained, the regime's ideological underpinning would be eliminated if it abandoned its commitment to reunification. Some participants likened the situation to that in East Germany where the regime also relied on ideology as a legitimating factor and, thus, could only resist change or collapse—it could not reconcile.

A second, related problem is that many panelists felt reconciliation would require economic rejuvenation in the North to replace the loss of ideological legitimacy. But, as noted, major economic reform is not seen as a viable option for the North because it would undermine the regime. If Kim Chong-il were to die or be removed, a new regime could conceivably commit to economic reform but the panelists felt that such change would be difficult, unstable, and full of uncertainty.

A number of participants argue that a leadership change would be less likely to lead to economic rejuvenation than to a leveraged buy-out or to Chapter 11-style receivership by the South. Others noted that leadership change would require extensive "de-Kimization" of the political system that would be difficult to achieve and that would raise more questions about the basis of legitimacy of the new regime. The fact that the primary investment needed to rebuild the North's economy would have to come from South Korea also would undercut a new leadership's ability to claim performance-based legitimacy. Consequently, instability would persist as questions would be raised as to why there would be a need for a separate regime in the North.

A third problem is that a reconciliation could entail unacceptable migration problems. Reconciliation presumably would include expanding rights to travel between the North and South with the likely result that many people would leave the North. A mass inflow of northerners, who all would have citizenship rights under the South Korean Constitution, could create potentially unmanageable tensions on the peninsula.

Moreover, South Koreans already are concerned that the prospect of 1 or 2 million refugees would entail costs that would have to be borne by Seoul alone.

Finally, the North's foreign dealings would be problematic during a reconciliation process. The North, for example, could seek to improve its ties with both China and Japan as two of the largest potential sources of economic assistance outside the peninsula. A new regime in the North could also be inclined to look to China as a guarantor of its political interests. Such efforts could lead to continuing foreign policy competition and heightened concern in the South that the North's regime might emerge as a more important force than wanted by Seoul.

Implications for the United States

From the US perspective, panelists saw both opportunity and risk in either a near-term competitive coexistence scenario or a reconciliation scenario. In both scenarios, the United States would continue to have the opportunity to demonstrate its credibility as a regional security guarantor and cooperate with Seoul in ways that may maximize the ability of the United States to retain influence—including some military presence—in an eventual reunified Korea. Despite the improved security environment that could be generated by a reconciliation process, Seoul also would likely want strong political backing from Washington as well as continued US force deployment as insurance against a breakdown in the process.

Some panelists noted that Seoul likely would continue to look to the United States to balance efforts by China and Japan to exploit a process of accommodation to increase their influence on the peninsula. Other panelists pointed to the US longstanding support for eventual Korean unification as giving Washington leverage in managing tactical strains that are likely to be a feature in either scenario. Some participants commented that Washington has an advantage in that Seoul recognizes that the United States, unlike the other regional powers, has no geopolitical interest in forestalling or complicating efforts to achieve eventual reunification on South Korean terms.

In terms of risk, the panelists' primary concern during a period of competitive coexistence was the potential for South Korea to react negatively if it perceived the United States as moving toward more normal relations with the North without concomitant progress in North-South dialogue. Despite the South's fear of collapse in the North and the consequences of an accelerated unification, Seoul's desire to maintain the upper hand in inter-Korean relations could easily lead South Korea to misinterpret the intent behind future US negotiating efforts to ameliorate the situation on the peninsula.

The panelists repeatedly cited their perception of growing South Korea's wariness and distrust toward the United States, notwithstanding the initiation of the four-party talks

process. The depth of South Korea's current economic crisis has generated a sense of vulnerability that could produce a loss of confidence and heightened paranoia in its dealings with the United States as well as the other regional powers.

Conversely, if some form of accommodative detente were to emerge between the North and South, participants commented that domestic pressure could build on Seoul to reconfigure or perhaps remove US forces and to limit US involvement in the peninsula. Prolonged economic downturn in the South combined with a perception of reduced threat from the North could also have a negative impact on Seoul's ability and willingness to maintain adequate levels of host-nation support.

The panel considered the prospect that during a reconciliation scenario the North might view a continuing US force presence as a constraint on an economically troubled but asymmetrically stronger South Korea. The participants concluded, however, that the North's persistent stand against the evil of a foreign presence on the peninsula was unlikely to be modified.

Finally, from the panel's perspective, a major challenge for the United States in either a continuing coexistence scenario or a less likely reconciliation scenario would be managing Seoul's perceptions of the degree of Washington's support for the South's approach toward inter-Korean relations. In the panelists' view, a principal risk is that a combination of South Korean frustration stemming from its economic difficulties and its persistent desire to retain control over dealings with the North could lead to South Korean misinterpretations of US actions that ultimately could jeopardize the US position in a postunification Korea. As in the previous Korean crisis simulation, the panelists noted that a souring of US-South Korean relations that imperiled the ability of the United States to retain some form of force presence on the peninsula could pose significant strains on the US-Japan security relationship.

Problems in Sustaining the Status Quo

While acknowledging the plausibility of a variety of factors that could support the continuation of an independent North Korea, the overall sense of the panel was that the status quo cannot continue in the long term. Many participants averred that the status quo situation is unstable and could be undermined by many different problems.

The major problem is that the economic degradation is continuing, making it likely that the flows of minimalist sustainment aid probably will not be practicable for more than a few years. Some participants noted that the industrialized economy of the North is more like those in Eastern Europe than the more agrarian economies in China and Vietnam. Others pointed out that even further agricultural reforms would not be

enough—given the structure of the economy—to enable the North to be self-sufficient in foodstuffs.

Considering the continuing need to import food and energy along with the deterioration in North Korea's industrial infrastructure, the panel argued that providing only minimalist sustainment aid will not be able to keep the economy viable. The participants noted that a related problem with the continuation of the status quo will be the lack of major longer-term relief packages. Japan may not be willing to provide a large aid package given its financial difficulties along with the likelihood that the North would demand billions in reparations from Japan for its past colonial rule over Korea. South Korea lacks the resources, and there is an apparent lack of political will in Seoul to provide significant aid to the North.

The participants argued that, although China is likely to continue to provide limited aid in hopes of preventing a North Korean collapse, Chinese policy toward the North is driven by strategic factors. Having failed in its own efforts over a period of years to persuade P'yongyang to adopt economic reform, China appears to prefer a weak North Korea to a revitalized but recalcitrant North that continues to pose a military threat to the South. Moreover, providing much more significant aid to the North could risk jeopardizing Beijing's relations with Seoul without necessarily increasing China's ability to modify North Korean behavior.

Conclusions

Although the North Korean regime may be able to prolong itself in the near term, no breakthrough in inter-Korean relations is likely to occur unless P'yongyang changes its traditional policy. Such a change seems unlikely under Kim Chong-il given his perspective that economic experimentation undermined the former Soviet Union and the communist regimes in Eastern Europe. Moreover, South Korea's economic crisis is likely to reinforce Kim's perception that his regime can survive by playing on the legitimate concerns of the other regional powers that forestalling collapse in the North remains imperative to averting potential disaster on the peninsula. Kim may also conclude that Seoul's economic problems will present the North with fresh opportunities to exploit potential social tensions in the South and to continue to attempt to drive wedges between a less confident South Korea and the United States, Japan, and China.

The sense of the Northeast Asian specialists panel was that the Kim regime will not sacrifice its own survival by adopting major reform and consequently, the situation on the peninsula is likely to remain unstable and precarious. The new South Korean administration may succeed in restoring some aspects of inter-Korean dialogue but President Kim Tae-chung's confederation proposal contains the same elements that the North has deemed too threatening in the past (see textbox). Even if some resumption

of dialogue occurs, genuine tension reduction seems remote in a continuing competitive coexistence scenario because P'yongyang is unlikely to give up the leverage it retains as a military threat.

The powers involved in the peninsula appear to have neither the resources to initiate a major aid and investment program for the North nor the ability to persuade the Kim regime to adopt the policy changes that would be required for such a program. Consequently, the degenerative economic spiral in the North is likely to continue with no way out. Although the timing is uncertain, the prospect seems strong that the Kim regime's refusal to reverse course will generate some catalyst that will lead to its collapse.[6]

Assuming a new regime emerges in the North, the panelists felt that it was likely to be unstable and would still have to confront the issue of economic liberalization. The participants did not rule out the prospect that a successor regime could pursue a more accommodating policy toward the South. There was general agreement, however, that the goal of a new regime would also likely be preservation of North Korea's existence as a separate state rather than reunification.

For now, the Kim regime is likely to continue to pursue policies of procrastination and the panelists saw little option for the United States and the other involved powers but to continue negotiating with the North while providing minimalist aid packages to avert short-term regime collapse. A minority of panel participants noted that there is a cost trade-off issue in terms of whether it is cheaper to cut off North Korea and let the regime die than to keep trying to provide enough aid to let the North get by for a period of years. As noted by the majority, however, the dilemma is that no one knows what a cutoff of aid would lead to because the North retains the leverage to provoke a variety of crises.

Although the panel saw no viable alternative beyond continuing ongoing efforts at pursuing tension reduction, the panelists' pessimistic outlook raises the legitimate prospect that a prolonged period of coexistence with the present regime in the North may not be sustainable. On the basis of the participants' assessment of the strategic inflexibility of the Kim regime and the inexorable economic degradation in the North, the problem of refining and coordinating contingency plans for a collapse in the North would appear to pose a more urgent challenge for South Korea, the United States, and Japan. China is likely to continue to be reluctant to discuss planning for a Korean crisis contingency with the United States but the panelists noted that US-China relations would be a critical variable because China would be in the strongest position to influence the outcome in a collapse scenario. In the view of the panel, the shared

[6] A number of panelists felt that a denouement could be sudden and violent. The participants were split, however, on whether the effects of a regime change could be contained in the North or whether a crisis potentially could pose a military threat to the South.

President Kim Tae-chung's Reunification Formula

Before his election as president Kim Tae-chung reaffirmed the proposal he first made in 1971 for a "three-stage peaceful reunification plan." The three stages are:

- Peaceful coexistence during which the North and South form a union of two republics linked by mutual recognition of sovereignty and a mechanism to ensure against aggression.
- Peaceful exchanges, during which official delegations hold regular conferences and arrange economic, cultural, and athletic exchanges to restore mutual confidence and pannational consensus. The exchanges would lead to formation of a provisional federation based on the coexistence of separate governments in the North and South.
- Peaceful unification, which would complete the process of integration.

Kim Tae-chung distinguishes his proposal from the North Korean federation proposal by stressing the need for both sides to begin the process by acknowledging the independent sovereignty of the other side and by focusing on building mutual understanding and confidence at each stage, rather than on specific institutional arrangements.

interest between the United States and China in ameliorating the outcome of the Korean endgame at least provides an opportunity to deepen the dialogue between Beijing and Washington about potential negative developments on the peninsula.[7]

Coping with the challenge posed by a potentially unsustainable status quo on the peninsula will be complicated by deepening economic exigency in the South. An increased sense of vulnerability and sagging confidence combined with a continuing desire to maintain control in dealing with the North is likely to complicate the process of achieving a coordinated strategy between the United States, South Korea, and Japan for dealing with a potential hard landing in the North. In the view of the panel, the South's current economic difficulties pose two problems in particular. First, the arduous task of economic restructuring in the South is likely to make it even more difficult for Seoul to face the realistic prospect that the North could collapse sooner rather than later. Second, a key variable in South Korea's foreign relations will be its

[7] Following a series of interviews with Chinese officials in the spring of 1997, Department of Defense consultants, Banning Garrett and Bonnie Glaser, concluded that a sharp deterioration of the situation in North Korea could lead the Chinese leadership to reevaluate its position of refusing to engage in joint contingency planning with the United States.

quest for foreign funding that could produce new strains in its relations with the United States.

Despite the foregoing problems, panelists noted the importance of deepening the trilateral dialogue among the United States, South Korea, and Japan on both the security and financial aspects of the Korean endgame. In the panel's view, a major challenge for Washington will be reassuring Seoul that its interests will not be jeopardized in any way during the four-party talks process and that prudent planning for a worse case outcome does not imply a lessening of the United States' commitment to support any opportunity to resume inter-Korean dialogue.

In conclusion, the panel assessed that the United States and South Korea are entering a critical juncture on the peninsula that will be defined by a period of instability and uncertainty. The interaction between Seoul and Washington in dealing with a possible hard landing in the North will have a critical effect on US influence with a future, unified Korea. Indeed, in the panel's view, coping with the challenge on the Korean Peninsula is likely to be the defining issue in terms of the US ability to continue to shape the security environment in Northeast Asia.

Appendix A

Panel Discussants [redacted]

Rear Admiral Clarence Armstrong, USN (ret.)

Mr. Mel Chaloupka, Chief
Gaming and Simulation,
US Pacific Command

[redacted]
Asst. Defense Intelligence Officer, EAP

Professor Don Daniel
US Naval War College

Nicholas Eberstadt, Visiting Scholar
American Enterprise Institute

Fritz Ermath
Former Chairman
National Intelligence Council

Robert Fauver
National Intelligence Officer for Economics, CIA

Brigadier General Thomas O. Fleming (ret.)
Former Deputy Director for
Strategic Planning and Policy
US Pacific Command

Ambassador Chas. W. Freeman, Jr.
Former Assistant Secretary of Defense
for International Security Affairs

[redacted]

Richard Kerr
Former Deputy Director of Central Intelligence

Paul Kreisberg
Woodrow Wilson Institute

Professor Kenneth Lieberthal
University of Michigan

Robert A. Manning
Council on Foreign Relations

James McCullough
Institute of International Studies
University of South Carolina

Rear Admiral Eric McVadon, USN (ret.)
Former Defense Attache to China

Jonathan Pollock
Rand Corporation

Daryl Plunk
Heritage Foundation

James Przystup
Heritage Foundation

Professor Robert Ross
Boston College

Shin Rin-sup
Congressional Research Service

Analysts from CIA

This appendix is

Appendix B

North Korea's Dim Economic Prospects

North Korean industrial and agricultural output continues to fall. Average industrial operations in November 1997 were down to less than 15 percent of capacity, Only portions of one or two facilities are now operating in major industries such as steel and cement. The fall grain harvest was just 2.9 million metric tons, according to CIA estimates, down 5 percent from last year and far short of the 4.5 million tons the North needs to meet even minimal rations.

P'yongyang cannot reverse these declines with its own resources.

- The North's industrial capital stock is nearly beyond repair as a result of underinvestment, spare parts shortages, and a lack of maintenance.
- Exhausted soil, a lack of arable land, and shortages of fertilizers and other agricultural chemicals all constrain agricultural output.

The only area of growing economic activity is the informal sector. permanent, daily markets now open in most major cities, including seven in P'yongyang. Some are officially managed and feature permanent structures such as entry gates; other unofficial street markets are springing up in adjoining areas. other private commerce, such as trade in cigarettes and alcohol at makeshift stands outside P'yongyang. Collective farms have also been allowed to retain more of their crops to trade on markets.

- these private sources of food and goods are replacing the state-controlled economy as the major source of subsistence for many North Koreans.
- The primary benefit of markets is more efficient distribution of goods, which helps improve access to staples; the impact on production has been low mostly because of limited arable land and the lack of private manufacturing facilities.

P'yongyang's prospects for receiving moderate levels of food aid in the coming year are good. Political factors, however, will determine whether the North will once again just scrape by or be in a position to improve nutritional conditions.

- Aid from **China** is almost certain. Beijing provided the North with nearly 800,000 tons of grain and flour this year, much of it aid.

Chinese officials have said Beijing gives a minimum level of support to the North to avoid the chaos that would accompany a regime collapse.

- International relief is highly likely. The **World Food Program** plans to appeal for 700,000 tons of aid, up from about 300,000 tons this year.

- Aid from **South Korea** or **Japan** is less certain. Seoul's financial problems will make it more politically difficult to provide assistance even though P'yongyang agreed to four-party plenary talks and is hinting at possible North-South initiatives after a new administration takes power. Japan has substantial grain reserves, but continues to withhold large-scale aid in an effort to extract further political concessions on bilateral issues.

Likely, Chinese assistance and international aid would result in a food situation similar to 1997; deaths from malnutrition and related disease would be common but most privileged groups—including P'yongyang, the military, and the security services—would receive sufficient food. Aid from South Korea and Japan could allow P'yongyang to improve nutrition for the first time in years.